TIAA Institute

Understanding the state of millennial personal finances

Millennials are on the cusp of becoming America's largest generation. They are projected to number 73 million in 2019. The sheer size of this generation means that the state of their personal finances matters greatly for the state of the U.S. economy as a whole.

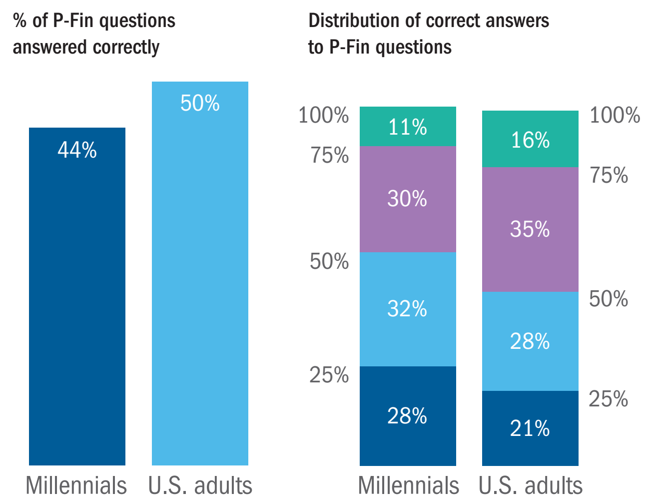
The TIAA Institute-GFLEC *Personal Finance (P-Fin) Index* is an annual barometer of financial literacy among the U.S. adult population. The 2018 wave of the *P-Fin Index* survey oversampled for millennials and included a special set of questions about how they engage with fin-tech, i.e., use smart phones for financial purposes.

The *P-Fin Index* considers millennials to be those born from 1981 through 2000; thus they were ages 18 to 37 when surveyed in 2018. Millennials are also known as Gen Y.

P-Fin Index millennial findings

Millennials' financial literacy

Millennials are less financially literate than the general population.



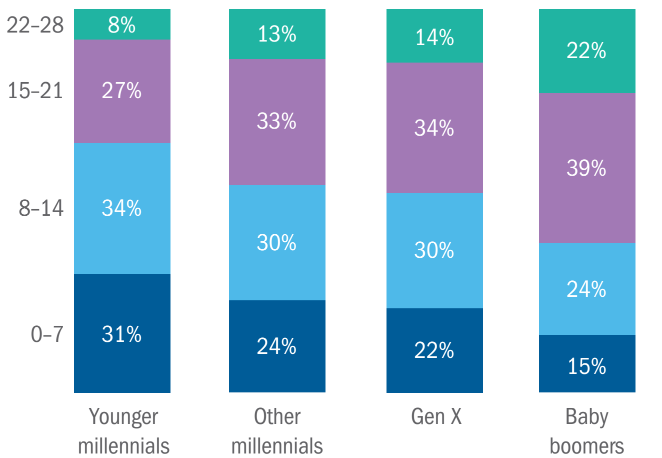
Source: The TIAA Institute-GFLEC *Personal Finance Index* (2018).

Just 11% of millennials demonstrated a relatively high level of financial literacy by answering over 75% of the index questions correctly. However, 28% demonstrated very low financial literacy by answering 25% or less of the questions correctly.

A notable difference in financial knowledge exists between younger (ages 18 to 27) and older (ages 28 to 37) millennials.

Financial literacy across generations

Distribution of correct answers to the *P-Fin* questions



Source: The TIAA Institute-GFLEC *Personal Finance Index* (2018).

Nearly four times as many young millennials demonstrated very low financial literacy than those who demonstrated a high level (31% vs. 8%); the corresponding result for older millennials is 24% vs. 13%. The 31% of young millennials with very low financial literacy is twice that among Baby boomers (15%).

Millennials make financial decisions in the normal course of everyday life from a very limited base of personal financial knowledge.

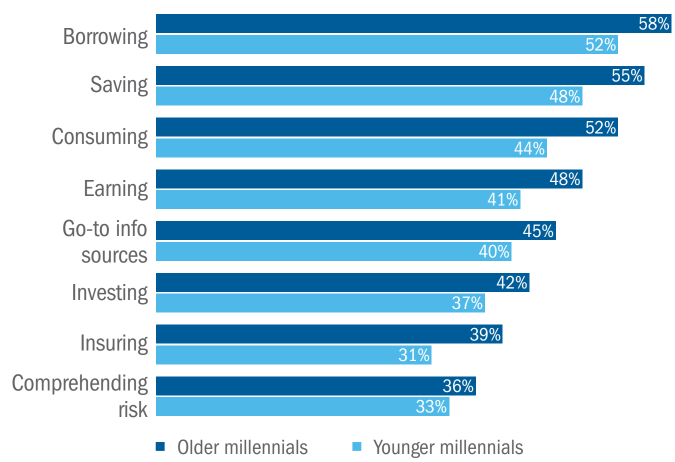
What you don't know can hurt you

A study of college-educated millennials found that less than 30% had received some form of financial education. Yet the vast majority (85%) were confident that they handle day-to-day financial matters well.[1] *P-Fin Index* results belie this confidence.

Financial literacy among millennials is lowest in the areas of comprehending risk and insuring. Understanding how insurance works (e.g., the trade-off between deductibles and premiums) and what constitutes appropriate coverage comprise functional knowledge in this area. Poor insurance decisions can leave an individual under-insured for some risks and over-insured for others, as well as overpaying for coverage.

Millennial functional knowledge

% of *P-Fin* questions answered correctly



Source: The TIAA Institute-GFLEC *Personal Finance Index* (2018).

The problem with a lack of knowledge among millennials—in any functional area—is that consequential financial decisions are faced early in life, and have ramifications for financial well-being decades into the future. Furthermore, some financial decision-making habits are "sticky" and cannot be readily changed.

Sample *P-Fin Index* financial literacy question:

Sebastian wants the premium payments for his car insurance to be as low as possible. What can he do?

- Increase the deductible on his car insurance (correct answer; chosen by 40% of younger millennials)
- Lower the deductible on his car insurance (chosen by 9%)
- Nothing, because his premium payments are dictated by his driving record (chosen by 14%)
- Don't know (chosen by 37%)

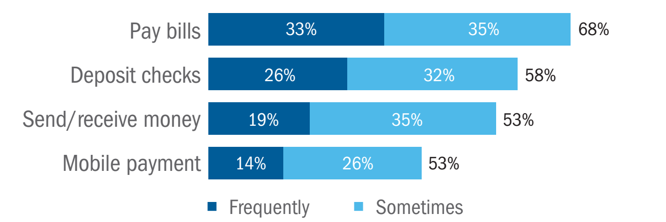
Almost all millennial smartphone owners use their device for some fin-tech activity (91%).

Millennial fin-tech use

Millennials live a technology-enabled existence. More than 90% own a smartphone, which offers ready access to money management capabilities.

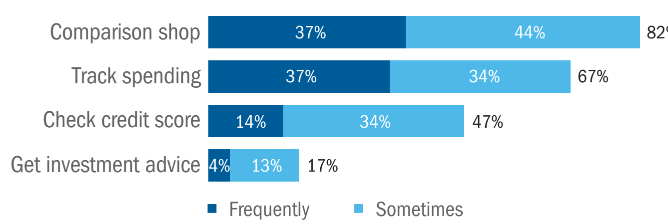
Transactional fin-tech

Percentage of millennials using their smartphone to...



Informational fin-tech

Percentage of millennials using their smartphone to...



Source: The TIAA Institute-GFLEC *Personal Finance Index* (2018).

Paying bills is the most common transactional fin-tech activity among millennials with a smartphone (68%). Comparing prices or product features while shopping is the most common informational activity among millennials with a smartphone, as well as the most common fin-tech use overall (82%).

No consistent pattern emerged related to fin-tech use and financial literacy levels within either the transactional or informational groups: some fin-tech uses appear more common at higher financial literacy levels, while others appear more common at lower financial literacy levels. These findings indicate that the eight fin-tech activities examined—which vary in purpose and nature—attract different users with different needs and economic circumstances.

Advising Gen Y

Current financial advisory business models focus largely on either transactions or assets under management. Yet Gen Y households' financial advice needs are more oriented toward budgeting, debt management, and basic insurance issues. TIAA Institute research shows how Gen Y households can be better served.

In a productive Gen Y advisory relationship, the advisor:

- Develops an understanding of the individual, then meets the individual on the individual's terms
- Educates and plants seeds; does not judge or preach

Effective programmatic engagement of Gen Y:

- Creates and leverages peer-to-peer engagement through social media
- Messages at appropriate times with relevant, personalized content
- Conveys content in a user-friendly format
- Provides the means to take action, such as tools and information
- Engages in "social listening" and solicits feedback to identify priority topics

Source: Ciccotello, C. (2016). *Advising the Financially Vulnerable New Gen Y Household*. New York, NY: TIAA Institute.

Read more

about millennials personal finances:
Millennial Financial Literacy and Fin-tech Use: Who Knows What in the Digital Era

College-Educated Millennials: An Overview of Their Personal Finances

about advising millennials:
Advising the Financially Vulnerable New Gen Y Household

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[1] Scheresberg, C., A. Lusardi, and P. Yakoboski (2014). *College-Educated Millennials: An Overview of Their Personal Finances.* New York, NY: TIAA Institute.

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